



**THE COMMONWEALTH OF MASSACHUSETTS
OFFICE OF CONSUMER AFFAIRS AND BUSINESS
REGULATION**

DIVISION OF INSURANCE

***REPORT OF EXAMINATION OF THE
MASSACHUSETTS VISION SERVICE PLAN, INC.***

Rancho Cordova, CA

As of December 31, 2006

NAIC COMPANY CODE 47093

EMPLOYERS ID NO. 04-2718308

MASSACHUSETTS VISION SERVICE PLAN, INC.

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COMMONWEALTH OF MASSACHUSETTS

Office of Consumer Affairs and Business Regulation

DIVISION OF INSURANCE

One South Station • Boston, MA 02110-2208

(617) 521-7794 • FAX (617) 521-7771

TTY/TDD (617) 521-7490

<http://www.mass.gov/doi>

DEVAL L. PATRICK
GOVERNOR

TIMOTHY P. MURRAY
LIEUTENANT GOVERNOR

DANIEL O'CONNELL
SECRETARY OF HOUSING AND
ECONOMIC DEVELOPMENT

DANIEL C. CRANE
DIRECTOR

NONNIE S. BURNES
COMMISSIONER OF INSURANCE

April 16, 2008

The Honorable Alfred W. Gross
Chair, Financial Condition (E) Committee, NAIC
Commissioner of Insurance
The Commonwealth of Virginia
State Corporation Commission
Bureau of Insurance
PO Box 1157
Richmond, Virginia 23218

The Honorable Thomas R. Sullivan
Secretary, Northeastern Zone, NAIC
Commissioner of Insurance
Connecticut Department of Insurance
PO Box 816
Hartford, Connecticut 06142-0816

The Honorable Nonnie S. Burnes
Commissioner of Insurance
The Commonwealth of Massachusetts
Office of Consumer Affairs and Business Regulation
Division of Insurance
One South Station
Boston, Massachusetts 02110-2208

Honorable Commissioners:

Pursuant to your instructions and in accordance with Massachusetts General Laws, Chapter 176F, Section 9, an examination has been made of the financial condition and affairs of the

MASSACHUSETTS VISION SERVICE PLAN, INC. Rancho Cordova, CA

at its home office located at 3333 Quality Drive, Rancho Cordova, California 95670. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

The Massachusetts Vision Service Plan, Incorporated (hereinafter referred to as “the Company” or “MVSP”) was examined as of December 31, 2006. The Massachusetts Division of Insurance conducted the current association plan examination. It included any material transactions and/or events occurring during the three-year period prior to the examination date and subsequent events noted during the course of this examination.

The examination was conducted in accordance with standards and procedures established by the National Association of Insurance Commissioners (“NAIC”) Financial Condition (E) Committee and prescribed by the current NAIC Financial Condition Examiners Handbook.

In addition to a review of the financial condition of the Company, the examination included a review of the Company’s business policies and practices, corporate records, conflict of interest disclosure statements, fidelity bonds and other insurance, employees’ pension and benefits plans and other pertinent matters to provide reasonable assurance that the Company was in compliance with applicable laws, rules and regulations. In planning and conducting the examination, consideration was given to the concepts of materiality and risk and examination efforts were directed accordingly.

PricewaterhouseCoopers LLP, (“PwC”) an independent certified public accounting firm, audits the Company annually. The firm expressed unqualified opinions on the Company’s financial statements for all calendar years covered by this examination.

Status of Prior Examination Findings

The last previous financial examination of the Company was as of December 31, 2003. The examiner reviewed the last previous examination report and work papers. It was determined the Company had satisfactorily addressed all outstanding items.

HISTORY

General

The Company was incorporated on December 31, 1980 under the laws of the Commonwealth of Massachusetts and commenced business on January 20, 1981. The purpose of the Corporation was for the promotion of social welfare within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1954, or the corresponding provision of any future United States Internal Revenue law.

The Company is to arrange for the provision of a vision service plan and to institute and maintain quality control programs for participants.

The Company is authorized to operate as an Optometric Service Corporation.

Massachusetts Vision Service Plan, Inc.

Growth of Company

The growth of the Company for the years 2003 through 2006 is shown in the following schedule, which was prepared from the Company's Annual Statements.

<u>Year</u>	<u>Admitted Assets</u>	<u>Net Premiums Written</u>	<u>Unassigned Funds (Surplus)</u>
2003	\$6,621,195	\$5,506,151	\$5,317,427
2004	8,401,867	7,912,179	6,018,310
2005	10,006,246	9,416,100	8,137,612
2006	11,355,324	11,961,351	9,746,722

Management

Annual Meeting

In accordance with Article II of the Company's Bylaws, as amended February 16, 2004, the Annual Meeting of the Member of the Company shall be held at the office of the Company or at such other time and place as the Member may determine, or to which any Annual Meeting may adjourn. A majority of the Board of Directors shall constitute a quorum. The minutes indicate that a quorum was obtained at each annual meeting held in the examination period.

In accordance with Article IV of the Company's Articles of Incorporation, as amended September 29, 1993, and Article III, Section 3 of the Company's Bylaws, the Annual Meeting of the Member of the Company shall be held for the purpose of the election of directors and other business as legally come before the meeting. The minutes indicate that Company Directors were elected at the Annual Meetings of the Member in accordance with Articles of Incorporation.

Article III of the Articles of Incorporation provides that the sole Member of the Company shall be Vision Service Plan, a California nonprofit corporation.

At the Annual Meeting of the Member held on February 16, 2004, Article III, Section 6 of the Bylaws of the Company was amended to read as follows:

"Section 6. Annual Audit. The Board of Directors shall review and approve each annual financial statement of the Corporation filed with the Massachusetts Commissioner of Insurance." The title of this section "Annual Audit" was also renamed to "Annual Financial Statements" in the amended Bylaws of the Company.

Board of Directors

In accordance with Article V of the Company's Articles of Incorporation, as amended September 29, 1993, the Board of Directors of the Company shall be comprised of no less than three (3) directors, a majority of whom shall be persons approved in writing by an optometric society

Massachusetts Vision Service Plan, Inc.

incorporated in the Commonwealth of Massachusetts for not less than five (5) years and having not less than 400 registered optometrists as members. Not less than one-third (1/3) of the Directors shall be persons who agree to become subscribers to the non-profit optometric service plan of the Company.

Directors shall be elected for terms of three (3) years at the Annual Meeting of the Member of the Company and will serve until their successors are elected and qualify. A Chairman shall be elected from among members of the Board of Directors by majority vote and will serve until his/her successor shall be elected and shall qualify.

The Board of Directors shall have general charge of the business and affairs of the Company and general supervision over the officers of the Company, and shall have the powers and duties prescribed both in accordance with the Articles of Incorporation and the Bylaws of the Company. Except as otherwise required by law, the Articles of Organization or the Articles of Incorporation, the action of a majority of the directors present at a meeting at which a quorum is present shall be the action of the Board of Directors.

In accordance with Article III of the Bylaws of the Company, as amended July 12, 1999 and February 16, 2004, the Directors shall be classified in respect to the time for which they shall severally hold office, by dividing them into three (3) classes. There shall be one (1) Director in the first class, to be elected for a term of one (1) year. There shall be one (1) Director in the second class, to be elected for a term of two (2) years. There shall be one (1) Director in the third class, to be elected for a term of three (3) years. As each Director's term to which he or she was elected expires, his or her successor shall be elected to serve a term of (3) years and until his or her successor is elected and qualify. At December 31, 2006, the Board was composed of three Directors, which is in compliance with the Company's Articles of Incorporation.

Directors duly elected and serving at December 31, 2006, with addresses and business affiliations, are as follows:

<u>Director</u>	<u>Business Affiliation</u>
James R. Lynch Sacramento, California	President & Chairman of the Board Vision Service Plan of California
Gary N. Brooks Loomis, California	Senior Vice President Vision Service Plan of California
Roger McCarthy, O.D. Clinton, Massachusetts	Optometrist / Small Business Owner

In accordance with Article V of the Company's Articles of Incorporation, as amended September 29, 1993 and Article III of the Company's Bylaws, as amended July 12, 1999 and February 16, 2004, a majority of the directors shall be persons approved in writing by an optometric society incorporated in the Commonwealth of Massachusetts for not less than five (5) years and having not less than 400 registered optometrists as members. The Directors have been approved by the Massachusetts Society of Optometrists.

Officers

The Bylaws of the Company provide that the officers of the Company shall be a President, a Secretary, a Treasurer, and such other officers as deemed necessary. The Bylaws state that the Chair, Treasurer, and Clerk shall be elected annually by the directors.

Vacancies among the officers may be filled and new offices created and filled by an affirmative vote of the majority of directors then in office.

In accordance with Article VI of the Company's Articles of Incorporation, as amended September 29, 1993, at the Regular Meeting of the Board of Directors next following the Annual Meeting of the sole Member of the Company, the Board shall choose the officers of the Company, consisting of a President, Secretary and Treasurer. When deemed necessary, the Board may choose one or more Vice Presidents and other officers and agents.

The Annual Meeting of the Board of Directors held on September 29, 2006 appointed the following persons to serve as officers of the Company. The names of these officers and their respective titles at December 31, 2006 follow:

<u>Name</u>	<u>Title</u>
James R. Lynch	Chairman/President
Gary N. Brooks	Secretary
Patricia Cochran	Treasurer and CFO

Conflict of Interest Disclosure Procedure

The Company has an established procedure for disclosure to the Board of Directors of any material interest or affiliation on the part of any officer or director, which is in or is likely to conflict with his or her official duties.

Each officer, director and responsible employee annually completes a statement disclosing any material conflicts of interest. The filed statements under the three-year period of this examination were reviewed, and no discrepancies were noted in the responses to the General Interrogatories regarding conflicts of interest as reflected in the Company's Annual Statements. The Company does not have any employees and the Conflict of Interest Statement pertains only to the Directors and the Officers of the Company.

Corporate Records

Articles of Incorporation and Bylaws

The Bylaws and Articles of Incorporation and amendments thereto were read. Based upon the reading of the Bylaws and Articles and amendments thereto, the Company is operating in compliance with its Bylaws and in accordance with the purpose, functions and policies as set forth in its Articles of Incorporation.

Disaster Recovery and Business Continuity

The Company provides for the continuity of management and operations in the event of a catastrophe or national emergency in accordance with M.G.L. c.175 ss.180M-180Q.

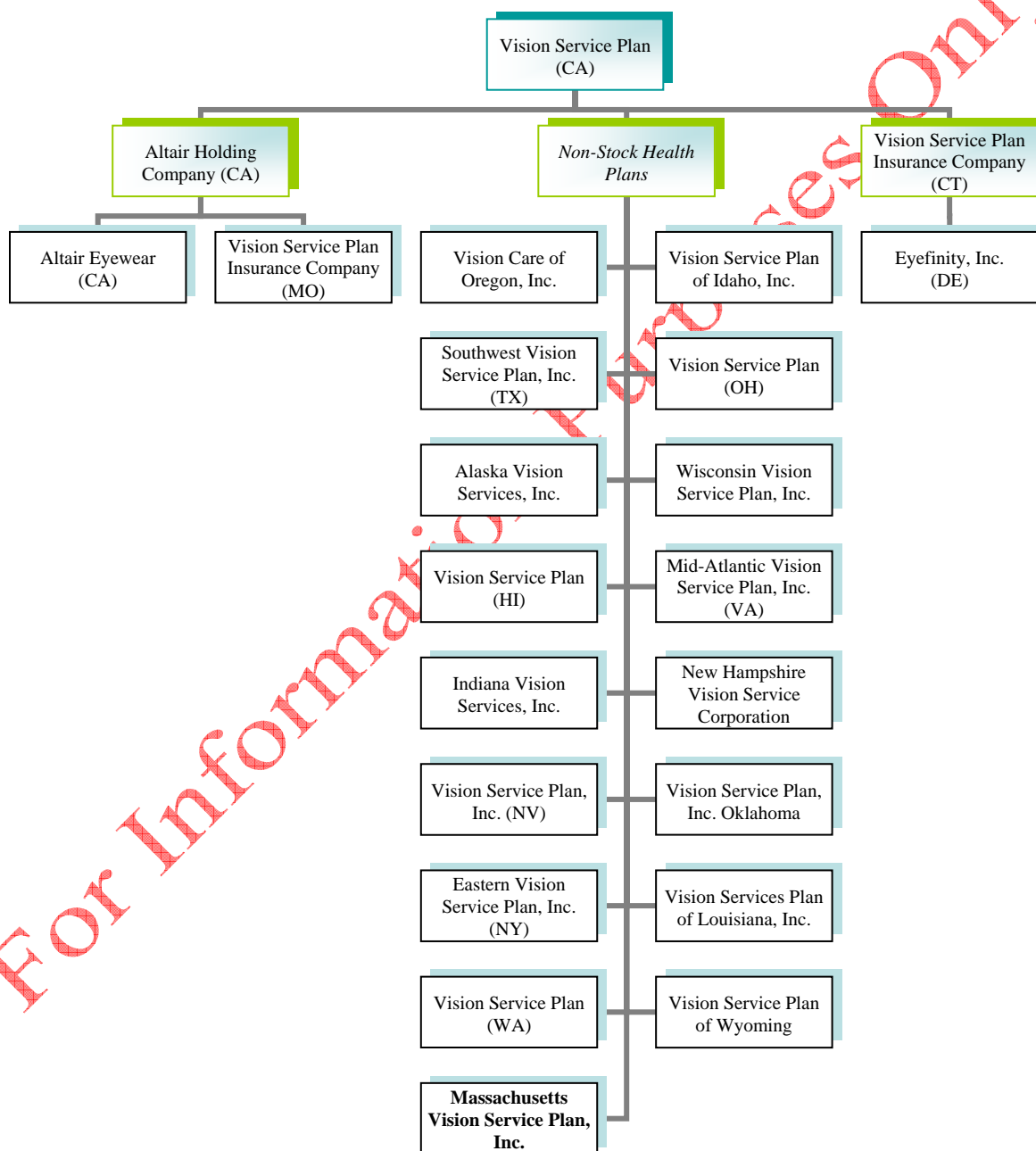
Minutes of Meetings

The minutes of meetings of (1) the sole Member of the Company, (2) the Board of Directors and (3) the Committees of the Board for the period under the three-year statutory examination period as of December 31, 2006 and its subsequent period were read and they indicated that all meetings were held in accordance with the Company's Articles of Incorporation, Bylaws and the Laws of the Commonwealth of Massachusetts. Activities of the Committees were ratified at meetings of the Board of Directors.

AFFILIATED COMPANIES

The Company is party to a group of Non-Stock Health Plans that are administered and marketed by Vision Service Plan, (“VSP”) a California non-profit corporation.

Organizational Chart



Transactions and Agreements with Parent, Subsidiaries and Affiliates

Management and Service Agreement

The Administrative and Marketing Agreement was entered as of March 7, 2001, by and between MVSP, a Massachusetts not-for-profit corporation and VSP, a California non-profit corporation.

The terms and conditions of this agreement are summarized in the following for the purpose of this examination:

- VSP currently operates the largest vision service plan in the United States and has significant expertise in all areas of prepaid vision care.
- MVSP currently operates a vision care plan engaged in providing vision care services in the Commonwealth of Massachusetts.
- VSP is the sole voting member of MVSP and MVSP is a wholly owned subsidiary of VSP.
- The Board of Directors of MVSP approved the affiliation between MVSP and VSP.
- VSP and MVSP desire to affiliate to permit national marketing on behalf of VSP and MVSP, and MVSP desire to have VSP provide administrative and marketing services to MVSP.
- Expenses and consideration settlement statements are rendered at least quarterly, and balances are settled within ninety (90) days.
- This agreement may be terminated without cause by either party upon sixty (60) days prior written notice.
- This agreement shall be governed by the internal laws of the Commonwealth of Massachusetts.

FIDELITY BOND AND OTHER INSURANCE

The Company maintains fidelity coverage that in aggregate exceeds the NAIC suggested minimum.

The Company has further protected its interests and property by policies of insurance covering other insurable risks. Coverage was in force as of December 31, 2006.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company has no employees but is allocated a share of the cost of benefits provided for employees of Vision Service Plan.

STATUTORY DEPOSITS

The statutory deposit of the Company as of December 31, 2006 is as follows:

<u>Jurisdiction</u>	<u>Description of Deposit</u>	<u>Par Value</u>	<u>Statement Value</u>	<u>Market Value</u>
Massachusetts	Certificate of Deposit 3.25% Due 3/21/07	\$75,694	\$75,694	\$75,694
		<u>\$75,694</u>	<u>\$75,694</u>	<u>\$75,694</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company is only licensed to write business in the Commonwealth of Massachusetts. The Company operates as an Optometric Service Corporation.

The Company is not organized for profit; and, the Company is formed for the purposes of (a) to incorporate a vision service corporation in accordance with the provisions of Chapter 180 and Chapter 176F of the General Laws of the Commonwealth of Massachusetts; (b) to foster the conservation of human eyesight by making available a highly specialized vision service plan for the aid, comfort and relief of human vision problems, and to provide a prepayment plan whereby individuals or groups may obtain vision services from licensed and qualified health service doctors.

The Company shall operate as a nonprofit corporation and shall be organized and operated exclusively for the promotion of social welfare within the meaning of Section 501(c)(4) of the Internal Revenue Code of 1986, as amended, or any successor provision.

The Company shall maintain and operate a voluntary nonprofit vision care plan to provide care to subscribers; to provide eye care to medically underserved persons whether or not subscribers to such plan; to provide public education regarding vision and vision care; to perform such services in a manner that benefits the community; and, to engage other lawful activities.

The Company currently operates a vision care plan engaged in providing vision care services in the Commonwealth of Massachusetts. In accordance with the Administrative and Marketing Agreement entered by and between the Company and its parent, VSP, the Company and VSP desire to affiliate to permit national marketing on behalf of the Company and VSP, and VSP provides administrative and marketing services to the Company. VSP currently operates the largest vision service plan in the United States and has significant expertise in all areas of prepaid vision care.

As of December 31, 2006, there were 187,232 enrolled vision members. During the three-year examination period, the total enrolled members have increased 87% from 100,299 at December 31, 2003. The Company does not issue participating policies and does not declare policyholder

dividends. The Company's operation does not utilize third party administrators or managing general agents.

Treatment of Policyholders

Claims Settlement Practices

Procedures performed in conjunction with the claims test work indicated that the Company settles claims on a timely and equitable basis.

Policyholder Complaints

During the course of the examination, a general inquiry was made as to the Company's complaints handling. The Company maintains a complaint register. The Company's procedure is to handle complaints on an individual basis when received. Under the three-year examination period as of December 31, 2006, the Company had no complaints in all categories.

REINSURANCE

The Company does not have a reinsurance program and does not engage in any assumed reinsurance, ceded reinsurance or retrocession activities.

ACCOUNTS AND RECORDS

The internal control structure was discussed with management through questionnaires and through transaction testing and a review of the work performed by the Company's independent certified public accountants. No material deficiencies were noted.

The NAIC provides a questionnaire covering the evaluation of the controls in the information technology ("IT") environment. All companies within the Group use the information systems of their parent, VSP. Consequently, the responses to the questions contained in the IT questionnaires related to the VSP systems.

Concurrent with the Division's examination of MVSP, the Missouri Department of Insurance was performing its own examination of Vision Service Plan Insurance Company of Missouri. The Missouri Department of Insurance was also in the process of evaluating the responses made to the NAIC Information Systems Questionnaire. In order to eliminate duplicate efforts in evaluating the IT controls, the Division deemed it appropriate to rely upon the work done by the Missouri Department of Insurance. No material deficiencies in the IT Environment were noted.

The Company uses an automated general ledger system. Trial balances were traced from the general ledger and supporting documents to the 2006 Annual Statement. No material deficiencies were noted.

The books and records of the Company are audited annually by PricewaterhouseCoopers LLP, independent certified public accountants, in accordance with 211 CMR 23.00.

FINANCIAL STATEMENTS

The following financial statements are presented on the basis of accounting practices prescribed or permitted by the Division and the NAIC as of December 31, 2006:

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2006

Statement of Revenues and Expenses for the Year Ended December 31, 2006

Statement of Capital and Surplus for the Year Ended December 31, 2006

Reconciliation of Capital and Surplus for Each Year in the Three Year Period Ended December 31, 2006

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Massachusetts Vision Service Plan, Inc.

Statement of Assets, Liabilities, Surplus and Other Funds
As of December 31, 2006

Assets	As Reported by the Company	Examination Changes	Per Statutory Examination	Notes
Bonds	\$2,498,427	\$ 0	\$ 2,498,427	
Common stocks	697,112		697,112	
Cash and short-term investments	6,854,109		6,854,109	
Subtotals, cash and invested assets	10,049,648		10,049,648	
Investment income due and accrued	127,227		127,227	
Premiums and considerations:				
Uncollected premiums and agents' balances in the course of collection	487,235		487,235	
Amounts receivable relating to uninsured plans	671,685		671,685	
Net deferred tax asset	19,529		19,529	
Total Assets	<u>\$ 11,355,324</u>	<u>\$ 0</u>	<u>\$ 11,355,324</u>	

For Information Purposes Only

Massachusetts Vision Service Plan, Inc.

Statement of Assets, Liabilities, Surplus and Other Funds
As of December 31, 2006

	As Reported by the Company	Examination Changes	Per Statutory Examination	Notes
Liabilities				
Claims unpaid	\$ 678,554	\$ 0	\$ 678,554	
Unpaid claims adjustment expenses	7,003		7,003	
Aggregate health policy reserves	136,522		136,522	
Premiums received in advance	9,670		9,670	
General expenses due or accrued	62,690		62,690	
Current federal and foreign income tax payable and interest thereon	38,288		38,288	
Amounts due to parent, subsidiaries and affiliates	178,493		178,493	
Liability for amounts held under uninsured plans	447,382		447,382	
Total Liabilities	1,558,602		1,558,602	
Aggregate write-ins for other than special surplus ft	50,000		50,000	
Unassigned funds (surplus)	9,746,722		9,746,722	
Total capital and surplus	9,796,722		9,796,722	
Total Liabilities, Capital and Surplus	\$ 11,355,324	\$ 0	\$ 11,355,324	

Massachusetts Vision Service Plan, Inc.

Statement of Revenue and Expenses for the Year Ended December 31, 2006

	As Reported by the Company	Examination Changes	Per Statutory Examination	Notes
Member months	2,124,995		2,124,995	
Net premium income	\$ 11,615,004	\$ 0	\$ 11,615,004	
Fee-for-service	346,347		346,347	
Total revenues	11,961,351		11,961,351	
Hospital and Medical:				
Other professional services	9,121,822		9,121,822	
Subtotal	9,121,822		9,121,822	
Less:				
Total hospital and medical	9,121,822		9,121,822	
Claims adjustment expenses	66,895		66,895	
General administrative expenses	785,129		785,129	
Increase in reserves for life and accident and health contacts	27,262		27,262	
Total underwriting deductions	10,001,108		10,001,108	
Net underwriting gain or (loss)	1,960,243		1,960,243	
Net investment income earned	412,394		412,394	
Net realized capital gains or (losses)	15,088		15,088	
Net investment gains or (losses)	427,482		427,482	
Net income or (loss) after capital gains tax and before all other federal income taxes	2,387,725		2,387,725	
Federal and foreign income taxes incurred	722,547		722,547	
Net income (loss)	\$ 1,665,178	\$ 0	\$ 1,665,178	

Massachusetts Vision Service Plan, Inc.

Statement of Capital and Surplus
For the Year Ended December 31, 2006

	As Reported by the Company	Examination Changes	Per Statutory Examination	Notes
Capital and surplus prior reporting period December 31, 2005	\$ 8,187,612	\$ 0	\$ 8,187,612	
Net income	1,665,178		1,665,178	
Change in net unrealized capital gains or (losses)	66,907		66,907	
Change in net deferred income tax	(121,584)		(121,584)	
Change in nonadmitted assets	<u>(1,391)</u>		<u>(1,391)</u>	
Change in surplus as regards policyholders for the year	<u>1,609,110</u>		<u>1,609,110</u>	
Surplus as regards policyholders, December 31, 2006	<u>\$ 9,796,722</u>	<u>\$ 0</u>	<u>\$ 9,796,722</u>	

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Massachusetts Vision Service Plan, Inc.

Reconciliation of Capital and Surplus
For the Three Year Period Ended December 31, 2006

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Capital and surplus, December 31, prior year	\$ 8,187,612	\$ 6,068,310	\$ 5,367,427
Net income	1,665,178	1,414,300	670,586
Change in net unrealized capital gains or (losses)	66,907	63,128	65,130
Change in net unrealized foreign exchange capital gain			
Change in net deferred income tax	(121,584)	54,290	(34,833)
Change in nonadmitted assets	(1,391)		
Change in provision for reinsurance			
Aggregate write-ins for gains and (losses) in surplus		587,584	
Net change in capital and surplus for the year	<u>1,609,110</u>	<u>2,119,302</u>	<u>700,883</u>
Capital and surplus, December 31, current year	<u>\$ 9,796,722</u>	<u>\$ 8,187,612</u>	<u>\$ 6,068,310</u>

CONCLUSION

Acknowledgment is made of the cooperation and courtesies extended by the officers and employees of the Company to the examiners during the course of the examination.

The assistance rendered by the following Massachusetts Division of Insurance Examiner who participated in this examination is hereby acknowledged.

Linh La

Insurance Examiner II

John M. Curran, CFE
Supervising Examiner
Commonwealth of Massachusetts
Division of Insurance

John A. Turchi, CPCU, CFE
Supervising Examiner & Examiner-in-Charge
Commonwealth of Massachusetts
Division of Insurance

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